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Milk Producers Security Trust Fund Security Charges Reestablished

The Milk Producers Security Trust Fund (MPSTF) was established in 1987 to provide protection for producers in the event that a handler defaults and fails to pay producers. The Fund was established by assessing approximately five cents per hundredweight on Class 1, 2, and 3 milk. The law requires that the Fund balance approximates 110 percent of the monthly dollar purchases of the State's largest handler of bulk milk.

The MPSTF Board met on March 19, 2002, and reviewed the existing balance of the Fund. Currently the Fund balance is approximately \$27.6 million, while the highest total dollar purchases for one month is \$33.4 million (the required 110% would be \$36.8 million). Currently, the fund balance reflects a \$9.2 million shortfall.

After carefully considering the issue, the Board recommended that the Department approve the reestablishment of the following security charges in the Class 1, 2, and 3 minimum prices for market milk to be effective June 1, 2002..

1. a) Five and seven-tenths mills per pound (\$0.0057) for Class 1 fat.
b) Two and three tenths mills per pound (\$0.0023) for Class 1 solids-not-fat.
c) One-tenth mill per pound (\$0.0001) for Class 1 fluid.
2. a) Seven and one-tenth mills per pound (\$0.0071) for Classes 2 and 3 fat.
b) Two and nine-tenths mills per pound (\$0.0029) for Classes 2 and 3 solids-not-fat.

Should you have any questions, please call Candace Gates or Mary Riley at (916) 654-1456.

March Milk Production

Milk production in California for March 2002 totaled 2.98 billion pounds, up 6.2 percent from March 2001. USDA's estimate for U.S. milk production for March 2002 in the 20 major dairy states is 12.8 billion pounds, up 3.2 percent from March 2001. Production per cow in the 20 major states averaged 1,650 pounds for March, which is 51 pounds above March 2001. ☀

Minimum Class Prices

Statewide average hundredweight prices

Class	March	April	May
1	\$13.41	\$13.40	\$13.16
2	\$12.26	\$11.83	\$11.83
3	\$12.10	\$11.67	\$11.67
4a	\$11.00	\$10.73	—
4b	\$10.20	\$10.59	—

Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	April	May
Phoenix, Arizona	\$13.82	\$13.61
Southern California	\$13.54	\$13.30
Portland, Oregon	\$13.52	\$13.16
Northern California	\$13.26	\$13.02

Quota Transfer Summary

For April 2002, 3 dairy producers transferred 657 pounds of solids-not-fat (SNF) quota. The quota sales averaged \$468 per pound of SNF (without cows), with an average ratio of 2.48.

Alfalfa Update: April

Northern California: April found Premium to Supreme alfalfa steady to \$5.00 lower, with light to moderate demand and light supplies. Sacramento Valley putting up hay with high moisture and some fields not testing as high as anticipated. Rainy weather was experienced in all areas slowing the movement of hay.

Southern California: April brought Supreme and Premium alfalfa with limited test without some faults such as weeds, grass, moisture or bleach. Demand has been light to moderate on all hay. High moisture and hot temperatures hurt quality. Retail and Stable hay was steady with moderate demand. ☀

Supreme Hay Prices

Statewide average prices per ton

April 2002 Prices

Area	4/5	4/12	4/19	4/26
Petaluma	\$162-172	\$158-165	\$160-165	\$146-158
North Valley ¹	\$160	\$161-175	\$156-175	\$150-161
South Valley ²	\$160-178	\$162-175	\$162-185	\$163-175
Chino Valley	\$148-157	\$148-155	\$145-156	\$150

¹ North Valley is Escalon, Modesto and Turlock areas.

² South Valley is Tulare, Visalia and Hanford areas.

Alfalfa Hay Sales and Delivery

	March 2002	April 2002
Tons Sold ¹	73,436	142,304
Tons Delivered ²	32,050	69,972

¹ For current or future delivery.

² Contracted or current sales.

Alfalfa hay sales, deliveries and Supreme quality prices per ton, delivered to dairies, as reported by the USDA Market News Service, Moses Lake, WA, (509) 765-3611, <http://www.ams.usda.gov/marketnews.htm>

Milk Production Cost Index for California

Month	Del Norte / Humboldt		North Bay		North Valley		South Valley		Southern California		Statewide Weighted Average	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Dollars per Hundredweight												
January	14.68	15.39	13.66	14.17	12.60	12.97	12.09	12.90	13.04	13.10	12.5165	13.0110
February	14.68	15.39	13.66	14.17	12.60	12.97	12.09	12.90	13.04	13.10	12.5165	13.0110
March	12.66		13.10		12.39		12.00		13.20		12.3930	
April	12.66		13.10		12.39		12.00		13.20		12.3930	
May	11.43		13.15		12.66		12.39		13.57		12.7255	
June	11.43		13.15		12.66		12.39		13.57		12.7255	
July	11.75		13.50		12.75		12.95		13.91		13.0678	
August	11.75		13.50		12.75		12.95		13.91		13.0678	
September	12.89		13.57		13.04		12.99		14.19		13.2516	
October	12.89		13.57		13.04		12.99		14.19		13.2516	
November	14.23		14.09		12.86		12.69		13.45		12.9463	
December	14.23		14.09		12.86		12.69		13.45		12.9463	

The Milk Producers Security Trust Fund

Due to a recent Processor payment default, there have been a lot of questions from Producers regarding the Milk Producers Security Trust Fund (Fund). Here is a brief description of the Fund and important facts for Producers to know.

What is the Milk Producers Security Trust Fund (Fund)?

Existing law authorizes the Secretary of the Department of Food and Agriculture to administer the Fund with the advisement of the Milk Producers Security Trust Fund Advisory Board. The Fund was established in 1987 to provide protection for producers in the event that a dairy processor defaults and fails to pay dairy producers. In order for a producer's milk shipments to be covered by the Fund, a contract between the producer and processor must be on file with the Department and the milk must be produced in California and shipped to a California processor.

The Fund is comprised of security charges collected from dairy processors (\$0.05 per cwt.) on all milk used for Class 1, 2, and 3 purposes. The law directs the Secretary to collect the security charges on the milk and deposit those charges into the Fund until the Fund reaches the level required by law. When the Secretary determines the Fund approximates 110 percent of the dollar amount of the total purchases of all classes of milk, being paid for and received in one month, by the processor with the largest payment obligation to producers for that month, the charges can be discontinued. The security charges are not re-implemented except to replace periodically any payments from the Fund or when the required level of funding increases due to the expansion or consolidation of the largest processor.

Currently, the highest total dollar purchases of milk for one processor, for one month, is \$33.4 million. Therefore, the fund balance should be approximately \$36.8 million. Recently, the Department determined that the \$0.05 per hundredweight security charges on Class 1, 2, and 3 milk should be re-established June 1, 2002, in order to bring the Fund from its current balance of \$27.6 million to the required balance of \$36.8 million. The only withdrawals from the Fund allowed by law are for expenses incurred for the required audits of the Fund and for payments to Producers in the event of a Processor default.

What Producers Should Know about the Fund . . .

- ◆ For milk shipments to be covered by the Fund, a contract between the Producer and the Processor must be on file with the Department. It is the PRODUCERS' RESPONSIBILITY to file the contract with the Department. If the contract is not on file with the Department, the Producer will not be covered under the Fund.
- ◆ The contract is to be filed with the Department within the first five days of contract start date. If the contract is not filed within the first five days, the Department will use the date it was received by the Dairy Marketing Branch as the coverage start date.
- ◆ The Fund earns interest which goes back into the Fund to help maintain the required balance.
- ◆ Contracts are normally mailed, but can be faxed or sent through common courier to the Department of Food and Agriculture, 1220 N Street/Room A-224, Sacramento, CA 95814, fax number (916) 654-0867.
- ◆ For shipments to be covered, milk must be produced in California and shipped to a California Processor.
- ◆ The Producer cannot have a beneficial ownership interest in the Processing entity where shipments are made.
- ◆ Milk handled by a broker is not covered, coverage is only from the Producer to the first point of sale.
- ◆ When a Fund claim is filed, a \$200,000 deductible is subtracted from the total amount the Processor owes to Producers before individual reimbursements are calculated.
- ◆ The Fund only covers milk shipped during the first 35 days of payment default. It is very important for Producers to report missed payments as soon as possible to minimize the days that may not be covered.
- ◆ It is a Cooperative's responsibility to act on behalf of their members' milk. The Cooperative must file the contract with each Processor with the Department to ensure coverage on all member milk.

Higher Hay Acreage No Surprise to Many in California Hay Industry

By Seth Hoyt, California Agricultural Statistics Service

The USDA Prospective Plants report released on March 28, 2002 estimated all harvested hay acreage in California for 2002 at 1,640,000 acres, up 6 percent from 2001. This was the largest prospective planting hay acreage estimate for California since 1991.

The report can be misleading without a breakdown of alfalfa and other hay, which will not be available until late June. In the last ten years, alfalfa hay acres accounted for 63 to 67 percent of all hay acres in California, ranging from 65 to 67 percent in 7 of the 10 years. Hay industry sources indicate that Sudan hay acres in California in 2002 will probably be down, particularly in the Sacramento Valley. We'll have to wait until June 28 to get the official alfalfa and other hay acre estimate for California. All hay acres in the seven western states (Arizona, California, Nevada, Utah, Oregon, Washington, Idaho) were estimated at 6,545,000 acres, up 5 percent from last year. But in the three states that ship the largest amount of alfalfa hay to California (Arizona, Utah, Nevada) the combined acreage of all hay is expected to be unchanged from 2001.

The big question is how much hay may be on the market in California in the coming weeks and months and how will the market respond. The early season market on milk cow quality alfalfa was about what I expected. The Imperial Valley market opened strong as San Joaquin Valley dairy hay buyers were aggressive. It was a surprise how high the TDN tests were on the early Imperial alfalfa hay (tests from various labs). When first cutting began in the San Joaquin Valley, demand for desert alfalfa declined and so did the market. Prices on Supreme and Premium quality alfalfa opened strong in the Central Valley but began to weaken by the third week of April. It was apparent that high-test alfalfa was in the best demand. Some growers were disappointed by tests on first cutting and as a result were finding less demand.

As I mentioned at the Alfalfa Symposium last December, lower milk prices could have an impact on the alfalfa hay market the first half of 2002. This is proving to be true. Dairy hay buyers were exerting downward pressure on the market in mid to late April. Along with lower milk prices, another reason for the lighter demand in April is due to some dairies having sufficient milk cow hay supplies to

carry them until later in the spring. This is because of an extra alfalfa cutting that many growers harvested in central and northern California last fall. Those dairymen that were in need of milk cow hay early this season were in the market in February and March in the southern desert and San Joaquin Valley.

The California hay market environment in 2002 will be much different than we saw the second half of last year. Even though the psychology will favor the buyers, alfalfa hay quality, test, and reputation will still be bargaining chips for sellers. Milk production is still dependent on high quality alfalfa hay. The challenge for hay sellers this season, which was not a big factor the second half of last year, may be competitors lowering the price in order to move volume or making other deals that will weaken the trading position of others. This could be more evident as the season progresses.

When one looks at hay markets the past ten years, the market in mid to late April 2002 is still good. For example, in the Tracy-Patterson-Stockton areas the week ending April 19, Premium and Supreme alfalfa hay prices averaged around \$147.00 per ton, fob (simple average of the USDA Market News Premium and Supreme quality weighted averages). This compares to the 5 year simple average of \$144.00 and the ten year average of \$133.00 per ton, f.o.b., according to USDA Market News. Sure prices are down from the second half of last year but how many hay markets will you see in your lifetime like the late summer and fall of 2001?

One potential positive for hay growers in 2002, particularly alfalfa hay growers, is that demand for hay from a large and growing dairy industry may buffer market declines. Historically, when there were significant year to year hay acreage increases the market turned very bearish. One thing is for sure, we are in a new era in supply-demand hay market dynamics. Another thing to watch for this summer is - how many older alfalfa hay stands may be pulled out if the dry cow hay market deteriorates?

DOPP Round IV Offered

The Risk Management Agency (RMA) is launching an innovative cost-share program in California for selected counties in 2002. The Program provides dairy producers an opportunity to learn about hedging milk prices through hands-on options trading called the Dairy Options Pilot Program (DOPP). DOPP is an education program designed to encourage dairy producers to use "put options" as price risk-management tools. DOPP is designed to give producers an opportunity to learn how futures and options markets work, and give producers first-hand experience in buying put-options contracts to ensure a minimum price for their milk.

The USDA's RMA is offering Round IV of DOPP. To be considered for participation, a dairy producer must attend an information and training session. Round IV trainees will have access to an online learning module that can be substituted for on-site training sessions. There are two other alternative delivery methods for training that will be available: a hard-copy training booklet or compact disc.

Dairy producers in selected counties will receive an invitation and a return postcard or can phone to reserve their place at the scheduled training session. The initial 4-hour training session will provide a good overview of how put options work, how to apply them to a dairy operation, and the rules of the program. For more information, call the RMA/Davis Regional Office at (530) 792-5870. ☀

Milk Pooling System Rewrite

The Milk Pooling Branch is continuing to pursue a complete redesign of its computer-generated producer pay-out system. The current program, written in COBOL and designed at the inception of Milk Pooling in 1969, is inflexible and no longer meets the changing needs of the growing California dairy industry. The Department is in the process of completing minor revisions and changes to the feasibility study report and will be resubmitting it to the Department of Finance and the Department of Information Technology. The Department will continue to report updates on this lengthy but necessary process and looks forward to implementing the new system.

Milk Producers Security Trust Fund

Do You Have Your Contract On File
with the Department?

Just a reminder that it is the producer's responsibility to file their contracts with the Department within 5 days of execution, otherwise, the producer will not be covered by the Milk Producers Security Trust Fund.

Getting to Know Us . . .

In response to reader request, the Dairy Review will highlight a Branch employee each month - in an effort to help you connect faces with voices, and help you get to know us better!

Greg Lawley
Supervising Auditor I



Moving On Up . . .

Congratulations to Greg as he moves on to serve as Chief of the Livestock Identification Branch.

Greg grew up in Fresno County in the small town of San Joaquin and attended Tranquility Union High School in Tranquility, California. His agricultural background started early as he was raised on a livestock-farming operation. He graduated in 1971 from Abilene Christian University, Abilene, Texas, with a Bachelor of Science Degree in Animal Science.

Prior to Greg's joining State service, he worked as a herdsman, maintaining a herd of 400 brood cows and later managed a 900-acre ranch (325-cow herd), including herd, fiscal, and personnel management. Greg was also a regional representative with the Western States Angus Association and was a contributing editor to Western States Angus News.

Greg brought his agricultural background to the Department in 1987 as a Direct Marketing Specialist and in 1992 came to the Dairy Marketing Branch as a Special Investigator. In 1995, Greg became the Supervising Auditor I of the Cost of Production and Unlawful Practices Units. Greg has been an outstanding supervisor of the Unit's professional staff and his experience and expertise in the field has been invaluable regarding the cost of production, delinquent payments, and sales below cost areas of the marketing of milk and dairy products. Greg will be sorely missed by the Dairy Marketing staff but will be an important asset to the Livestock Identification Branch. We wish him all the best!

Greg lives in Lincoln with his wife Karen. They have four grown children: Jason, Brad, Gage, and Karson. They also maintain a 50-cow herd of beef cattle. ☀

Hundredweight Pool Prices

Month	Quota	Overbase
October '00	\$12.29	\$10.59
November	\$12.69	\$10.99
December	\$12.98	\$11.28
January '01	\$12.73	\$11.03
February	\$13.04	\$11.34
March	\$13.88	\$12.18
April	\$14.65	\$12.95
May	\$15.70	\$14.00
June	\$16.46	\$14.76
July	\$16.35	\$14.65
August	\$16.70	\$15.00
September	\$16.95	\$15.25
October	\$14.71	\$13.01
November	\$13.67	\$11.97
December	\$12.93	\$11.23
January '02	\$13.18	\$11.48
February	\$12.53	\$10.83
March	\$12.37	\$10.67

Milk Mailbox Prices in Dollars per Hundredweight

	July '01	August	Sept.	October	Nov.	Dec.	Jan. '02
California ¹	\$15.13	\$15.54	\$15.95	\$14.06	\$12.96	\$12.33	\$12.48
USDA ²	\$15.92	\$16.32	\$16.86	\$15.52	\$14.25		

¹ California mailbox price calculated by CDFA.

² All federal milk market order weighted average, as calculated by USDA.

